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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

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IN THE MATTER OF DETERMINING
Whether there has been a violation
of the Securities Act of the State
of Washington by:

WILLIAM ARTHUR HITSMAN, JR.
Respondent

Order No. S-03-111-04-FO01

ENTRY OF FINDINGS OF FACT AND
CONCLUSIONS OF LAW AND FINAL ORDER
TO CEASE AND DESIST AND IMPOSITION OF
FINE AGAINST WILLIAM ARTHUR
HITSMAN, JR.

THE STATE OF WASHINGTON TO: William Arthur Hitsman, Jr.

On October 30, 2003, the Securities Administrator of the State of Washington issued Order Number S-03-111-03-TO01, Summary Order to Cease and Desist and Notice of Intent to Impose a Fine, hereinafter referred to as Summary Order.

The Summary Order, together with a Notice of Opportunity to Defend and Opportunity for Hearing, hereinafter referred to as "Notice of Opportunity for Hearing" and an Application for Adjudicative Hearing, hereinafter referred to as "Application for Hearing", were served on William Arthur Hitsman, Jr. on November 9, 2003. The Notice of Opportunity for Hearing advised William Arthur Hitsman, Jr. that a written application for an administrative hearing on the Statement of Charges must be received within twenty days from the date of receipt of the notice. William Arthur Hitsman, Jr. failed to request an administrative hearing within twenty days of receipt of the Statement of Charges and Notice of Opportunity for Hearing, either on the Application for Hearing provided or otherwise.

The Securities Administrator therefore will adopt as final the findings of fact and conclusions of law as set forth in the Summary Order and impose the fine sought against William Arthur Hitsman, Jr.

FINAL ORDER TO CEASE AND DESIST AND
IMPOSITIO OF FINE

1 The Securities Administrator makes the following findings of fact and conclusions of law:

2 **FINDINGS OF FACT**

3 **I. RESPONDENTS**

4 1. DRDATA Inc. is a Delaware corporation that was started in 1999 and had its principal place of
5 business in San Diego, California. DRDATA Inc. was in the business of developing and marketing
6 software for analyzing organizational costs. William Lauer was the president of DRDATA Inc.

7 2. William Arthur Hitsman, Jr. ("Hitsman") held himself out as the senior vice president of
8 DRDATA Inc. During 2001, Hitsman was working part-time for DRDATA Inc. During 2003, Hitsman has
9 been working full-time with William Lauer to market software for analyzing organizational costs. At all
10 times material to this order, Hitsman has been a Washington resident.

11 **II. OFFERING OF INVESTMENTS**

12 During at least 2001, Hitsman has offered and sold investments totaling more than \$40,000 in
13 DRDATA Inc. to at least seven investors, several of whom were Washington residents. In most cases, the
14 investments were supposed to be repaid within 24 months.

15 Hitsman represented to at least one investor that he was offering and selling stock from DRDATA
16 Inc. Later, Hitsman told the investor that Hitsman was selling shares of his own stock in DRDATA Inc.

17 When offering and selling the DRDATA Inc. investments, Hitsman told investors that they would
18 receive shares of stock in DRDATA Inc., but at the same time, Hitsman told investors that their investments
19 would be repaid within a specific time period, generally within 24 months of the date of their investment.
20

21 **III. MISREPRESENTATIONS AND OMISSIONS**

22 When offering and selling the DRDATA Inc. investments, Hitsman misrepresented to investors that
23 there would be no loss on the amount of their investment because he would personally guarantee the
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1 repayment of their principal amount invested. Hitsman failed to give the investors financial statements for
2 Hitsman or provide any evidence of his ability to guarantee the amount of their investments. At this time,
3 several of the investments are past due and have not been repaid.

4 When offering and selling the DRDATA Inc. investments, Hitsman and DRDATA Inc. each failed
5 to disclose the risks of the investments, including the developmental nature of the software, the ownership
6 of the software by a related company, the lack of an established market for the software and the competition
7 within the software industry. Hitsman and DRDATA Inc. each failed to disclose the intended or actual use
8 of the investor funds. Hitsman and DRDATA Inc. each failed to disclose the cost of developing and
9 marketing the software. Hitsman and DRDATA Inc. each failed to give the investors any financial
10 statements for DRDATA Inc.

11 During 2001, Hitsman distributed misleading “investor statements” showing reported gains for the
12 DRDATA Inc. investments, which in some cases were more than twice the amount that was initially
13 invested. However, Hitsman failed to disclose that the reported gains were only projected gains and were
14 not realized gains.
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16 IV. UNREGISTERED SECURITIES OFFERING

17 The offering of stock or investments by DRDATA Inc. was never registered under RCW 21.20 with
18 the Washington State Securities Division.
19

20 Based upon the above Findings of Fact, the following Conclusions of Law are made:

21 CONCLUSIONS OF LAW

22 I.

1 The offer or sale of the investments described above constitutes the offer or sale of a security as
2 defined in RCW 21.20.005(10) and (12), whether in the form of stock, investment contracts or evidences of
3 indebtedness.

4 II.

5 The offer or sale of said securities was made in violation of RCW 21.20.140 because there was no
6 registration for the offering of said securities under the Securities Act of Washington.

7 III.

8 The offer or sale of said securities was made in violation of RCW 21.20.010 because Respondents
9 each made untrue statements of material fact or omitted to state material facts necessary in order to make the
10 statements made not misleading.

11 **FINAL ORDER**

12 It is hereby ORDERED that William Arthur Hitsman, Jr. and his agents and employees shall each
13 cease and desist from offering and/or selling securities in any manner in violation of RCW 21.20.140,
14 the securities registration section of the Securities Act of Washington.

15 It is further ORDERED that William Arthur Hitsman, Jr. and his agents and employees shall each
16 cease and desist from violation of RCW 21.20.010, the anti-fraud section of the Securities Act of
17 Washington.

18 **IMPOSITION OF FINE**

19 As described in the foregoing Findings of Fact and Conclusions of Law, based upon Arthur
20 William Hitsman Jr.'s offer and sale of unregistered securities and based upon material
21 misrepresentations and omissions that he made in connection with the offer and sale of those
22 securities, the Securities Administrator finds that there have been knowing or reckless violations of
23 securities, the Securities Administrator finds that there have been knowing or reckless violations of
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1 the Securities Act of Washington that justify the imposition of a fine pursuant to RCW 21.20.395.
2 Therefore, the Securities Administrator hereby orders Arthur William Hitsman, Jr. to pay a fine of
3 \$5,000 that is due and payable on the date of entry of this order.

4 This Order is entered pursuant to RCW 21.20.390, RCW 21.20.395 and RCW 21.20.440 and is
5 subject to the provisions of ch. 34.05 RCW.

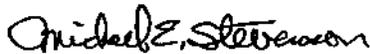
6 WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.

7 DATED AND ENTERED this 17th day of February, 2004

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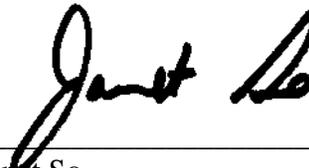
11 DEBORAH R. BORTNER
Securities Administrator

12 Approved by:

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15 _____
Michael E. Stevenson
Chief of Enforcement

16 Presented by:

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Janet So
Financial Legal Examiner

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25 FINAL ORDER TO CEASE AND DESIST AND
26 IMPOSITIO OF FINE